



These data are just some examples that show that reforms are achievable, and that awareness of their importance and feasibility should be heightened by environmental and conservation organisations.

According to Prof. Dr. Andreas Troge, President of the Federal Environmental Agency (UBA): „as long as the negative environmental effect of EHS is not corrected, environmental policy will have to encompass financial requirements.“

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¹ CBD/SCBD [Secretary of the Convention on Biological Diversity], 2000: „Incentive Measures: Further Analysis of the Design and Implementation of Incentive Measures“, paper prepared for the Fifth Meeting of the Conference of the Parties to the Convention on Biological Diversity, document UNEP/CBD/COP/5/15, 15-26 May, Nairobi.

² UNEP, 2004: Economic Instruments in Biodiversity-related Multilateral Environmental Agreements, p. 79

³ For more information on the outcomes of the Rio conference, please see: <http://www.un.org/geninfo/bp/enviro.html> (accessed 15 April 2008).

⁴ Grüne Liga Berlin, 2007: Von Rio nach Bonn: kann der Biodiversitätsgipfel 2008 in Deutschland das größte Artensterben seit der Eiszeit aufhalten?, p. 2. URL: http://www.grueneliga-berlin.de/rabe_ralf/rabe_archiv_2007/juni_2007/titelthema_2007.pdf

⁵ Kjellingbro, Peter Marcus/ Skotte, Maria, 2005: Environmentally Harmful Subsidies - Linkages between subsidies, the environment and the economy, p. 2

⁶ EEA, 2007: Technical Report 3, Size, structure and distribution of transport subsidies in Europe

⁷ For more details please see the Black Book of Subsidies (in German), available for download at: http://www.foes.de/de/downloads/Politische%20Forderungen/Schwarzbuch_version_1.6_final.pdf



GREEN BUDGET GERMANY

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ENVIRONMENTAL HARMFUL SUBSIDIES – A THREAT TO BIODIVERSITY

EXECUTIVE SUMMARY

„A typical American tax-payer pays up to USD 2,000 per year to finance environmentally harmful subsidies. And then he has to pay other USD 2,000 for the incremented price of goods and services due to the resulting environmental damages.“

Former US government senior advisor Dr. Norman Myers, criticizing the economically counterproductive fiscal policy of many states.

The global problem of biodiversity loss is exacerbated by many direct and indirect environmentally harmful subsidies (EHS), which cause a great deal of damage to rainforests, fisheries and agricultural land. Similarly, the nature of the transfer of wealth from the wealthy North to the poorer South often has a significant negative environmental impact.

According to the Convention on Biological Diversity (CBD), so-called „perverse subsidies“ are a policy or practice that encourages, either directly or indirectly, resource uses leading to the degradation of biological diversity.¹ The OECD defines as perverse subsidies „all kinds of financial supports and regulations that are put into place to enhance the competitiveness of certain products, processes or regions, and that, together with the prevailing taxation regime, (unintentionally) discriminate against sound environmental practices.“

UNEP estimates that EHS are worth between USD 0.5 to 1.5 billion per year – in OECD countries, farming subsidies alone are worth more than USD 381 billion – and has called for their rapid dismantling.²

Environmental and conservation organisations have an important role to play in heightening awareness of the need to reduce subsidy volumes in the energy, transport, wood and agricultural sectors.

Discussion of EHS is not a new topic. In 1992, the international community gathered at the Earth Summit in Rio de Janeiro agreed the following:

- To remove or reduce those subsidies that do not conform with sustainable development objectives
- Reform or recast existing structures of economic and fiscal incentives to meet environment and development objectives;
- Establish a policy framework that encourages the creation of new markets in pollution control and environmentally sounder resource management;
- Move towards pricing consistent with sustainable development objectives.³

In addition, the 2002 World Summit on Sustainable Development in Johannesburg declared the aim of reducing the rate of extinction worldwide by 2010.

The meeting of U.N. Contracting States to the COP9 „Convention on Biological Diversity“ (CBD) in Bonn in May 2008 under the German Presidency must finally grasp the opportunity to take concrete steps to reduce perverse subsidies. Article 10 a) of the CBD incorporates a clause calling on the convention parties to „integrate consideration of the conservation and sustainable use of biological resources into national decision-making.“ Time is of the essence. Global extinction rates are a thousand times higher than the natural rate. In Germany alone, around 100 hectares of land are lost daily to the construction of residential areas and infrastructure. If today's trends are not reversed, the destruction of habitats and the effects of climate change could result in the extinction of 1.5 million species of flora and fauna in the next 25 years⁴. The European Union and the German government value biodiversity loss – extremely difficult to price or quantify – at between 16 and 64 billion Euros per year – considerably more than the Gross World Product!

Kjellingbro and Skotte estimate that EHS amount to more than half of all subsidies worldwide, and that the greater proportion of these are used to subsidise agriculture⁵.

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Billion US \$	Total conventional subsidies	EHS out of total conventional subsidies
Agriculture	376	207
Energy	85-244	64-216
Road Transportation	225-300	110-150
Water	69	50
Forestry	35	35
Fisheries	20	19
Total	810-1044	485-677

Agriculture

The intensification of farming poses a huge threat to biodiversity. The German Federal Agency for Nature Conservation (BfN) estimates that around 450 plant species are under threat today as a result of farming methods. Agriculture encroaches upon local (habitat-related) and regional (landscape-related) biodiversity, as intensive farming methods reduce variations in environmental conditions in cultivated areas, which in turn has a negative impact upon biodiversity. Even in intensively farmed fields, the proportion of non-sown flora is low, as the use of pesticides and fertilisers encourages plants that prefer rich soils, while native species are displaced.

The agricultural sector is an important recipient of EHS, particularly in the EU and the USA. OECD research suggests that subsidies account for one third of income in the agricultural sector – yet only 4 per cent of these subsidies can be regarded as environmentally advantageous, and more than two thirds pose a threat to biodiversity.

The export subsidies of OECD countries not only distort international competition and compromise the development of poorer states in the South, but also encourage intensive agricultural methods. For example, the subsidisation of meat production in the EU has resulted in the massive expansion of soya bean production in Brazil and Argentina used as cattle feed for the production of beef consumed in Europe. In much the same way, subsidisation of biofuels in the EU has indirectly caused significant environmental damage in rainforest areas of Southeast Asia and South America, due to the effective subsidisation of palm oil plantations. Even today, approximately 40 per cent of the entire EU budget (about 44 billion Euros) is used to subsidise agriculture. Germany's share in this total amounts to 9.3 billion Euros, with agriculture receiving a further 1.7 billion Euros in national subsidies as well. Similarly, the USA is planning to subsidise agriculture to the tune of 197 billion Euros in 2008, even though the WTO denounced its cotton subsidies as anti-competitive in December 2007.

Fisheries

Perverse subsidies are also a significant issue in the fisheries sector, indeed it is the most strongly protected and economically encouraged branch of trade. According to UNEP, subsidies currently account for almost the half of total turnover in the fisheries industry, with hugely detrimental results. It is estimated that around 74 per cent of fish stocks are completely exploited or over-fished and that national fishing fleets are 2.5 times larger than they should be to achieve sustainable development. What is more, environmentally damaging deep-sea fishing is subsidized to the tune of 152 billion Euros per annum. In this sector, it is imperative that subsidies are reduced – especially for high performance fishing fleets – and controls to prevent illegal fishing are improved, as well as to downsize the fleet capacity and to promote alternative incomes in other economic fields.

Woods and dams

A number of direct and indirect fiscal measures encourage the deforestation of woodland habitats vital for safeguarding biodiversity. This can amount to the subsidisation of timber companies and saw mills, or the building of roads to enable access to rainforest areas for slash and burn cultivation. Dam construction can also result in serious reductions in biodiversity and is subsidized by national governments and by international emissions trading. In such cases it is necessary to strike a balance between environment and economy, taking CO₂ free electricity generation, the costs of flood defences, and methane build-up in the reservoir into account. A positive example of biodiversity protection is Brazil's system of municipal fiscal transfer, which takes ecological indicators (ICMS-E) into account. In the federal state of Parana, for instance, the proportion of local protected areas has increased by 192 per cent within 10 years. This is a meaningful example of how crucial financial incentives can be used in the conservation of biodiversity, as well as in its loss. Environmental policy is increasingly coming to be regarded as a benefit and not a burden.

Transport

The transport sector is highly subsidized worldwide, to the tune of about 600 billion Euros. Two thirds of these subsidies can be classified as „perverse“. According to the European Environment Agency, total European subsidies in road, rail, air and water sectors fluctuate between 269 and 293 billion Euros annually.⁶ If this is added to the 650 billion Euros worth of environmental and climactic damage resulting from the transport sector, a total of between 919 and 949 billion Euros of environmentally damaging financial incentives exist. Tax revenues from the sector amount to only 200 billion Euros, and thus the great proportion of transport subsidies are borne by citizens at the expense of biodiversity.

Germany

Energy and transport subsidies, including subsidisation of infrastructure, are very high in Germany. According to a survey of environmental and conservation organisations, perverse subsidies in the 2006 federal governmental budget were estimated to be worth 34 billion Euros.⁷ Commuter tax allowances and higher property taxes in cities are incentivising urban sprawl and the segmentation of living space. In addition, Germany pays out more than one-third of all competition-distorting subsidies for business in the European Union, worth 20.2 billion Euros.

Projects leading to significant biodiversity loss continue to receive funding. The demolition of the last large freshwater mudflat in Hamburg (the last Süßwasserwatt) – the Mühlenberger Loch – is just one example of this. The area was the last large stretch of mudflat between Hamburg and the Elbe estuary and it was valued as both a resting ground for migratory birds and as a foraging ground for brooding birds. It cost the federal government and the German states more than 2.3 billion Euros to destroy it and make way for an extension to the Airbus factory.

It is important that a discussion of subsidy policy concentrates on ways of dismantling EHS, on their restricted validity in terms of time, and on their continuous re-examination. Total ecological costs must be calculated as an integral part of this process, and lobby interests must be overcome. When tackling global subsidies, national interest must be put aside and the sustainable, long-term value of biodiversity prioritised.

The COP9 offers us all the chance to achieve real and binding progress on the way to reducing and eventually turning the tide of biodiversity loss. A great number of EHS must be dismantled if we hope to reach the global environmental targets set for 2010.

The current climate is favourable to the reduction of perverse subsidies, and increased environmental awareness is driving a rethinking of our approach to ecosystems and biodiversity. Awareness today of the value of woodlands, wetlands and moorlands in climate protection and biodiversity preservation has increased considerably.

Numerous developments can be found to illustrate the trend for dismantling EHS:

- New Zealand has abolished agricultural subsidies almost completely since the 1980s, in spite of – or perhaps because of – its economic dependence on the agricultural sector. Chile and Argentina have also significantly reduced their subsidies.
- Russia has cut fossil fuel subsidies from USD 29 billion to USD 9 billion, as has China, from USD 25 billion to USD 10 billion.
- Brazil has considerably reduced stock farming in the Amazon basin and has introduced a system of municipal fiscal transfer that takes ecological indicators (ICMS-E) into account.
- Indonesia has reduced its fertilizer subsidies from USD 732 million to USD 96 million, as has Pakistan, from USD 178 million to USD 2 million. Furthermore, Bangladesh and the Philippines have completely abolished chemical fertilizer subsidies.

Overview of total annual subsidies found by incidence and mode in the transport sector (EUR billion, 2005)					
	Infrastructure subsidies (only EU-15)	Other budget transfers	Fuel- tax exemptions	VAT exemptions	Total
Road	110	7	0	9	125
Rail	37	33	0-1	3	73
Air	0	1	8-16	18	27-35
Water	10	1	3-19	0	14-30
Multiple Modes		30			30
Total	156	73	11-36	29	269-293